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THE WAR MACHINES OF CAPITAL (TAKING INTO ACCOUNT THE SANCTIONS AGAINST RUSSIA)

ECONOFICTION CENTRAL BANK, IMPERIALISM, RUSSIA SANCTIONS, WARMACHINE OF CAPITAL

oday, the political-economic executives of Western states are no longer just state apparatuses, but an ensemble of transnational institutions essentially dominated by finance capital. While ultra-liberal in their handling of financial flows, these “shadow” governments, such as the EU (but also the central banks), decide on many political and economic issues, setting, for example,

employment levels, salaries, public spending, retirement ages and benefits, tax rates, and much more for various categories of the population. National executive powers are often limited only to executing and implementing the directives and decisions of these globalized command centers. Stripped of its classical form of "sovereignty," the nation-state is reduced to reterritorializing the global economy through debt (which it actively manages) and wars. It goes without saying that the American government is the exception here, for it is not a nation-state (in the classical sense) but an imperial state that has redefined its "national interest" with the defense and expansion of global capitalism, regulating the axiomatics of the world economy of debt and dominating the transnational institutions that it has also largely created.

Lazzarato/Alliez show that a first approach to the new functions of war and executive power, understood as components of the war machine of finance capital, was in the 1999 book by two Chinese Air Force colonels, Qiao Liang and Wang Xiangsui, Unrestricted Warfare. In the context of the post-Cold War resurgence of rivalry between China and the United States, the authors see the international financial activities of the leading imperialist countries and capitals as a "bloodless war" that can have comparable effects to a "bloody war." Finance is therefore an integral part of non-conventional war. Today, the authors note, the factors that threaten "national" security are not so much the military forces of an enemy state as "the seizure of resources, the struggle for markets, the control of capital, trade sanctions, and other economic factors." With this paradigm shift, it becomes apparent that damage from new "nonmilitary weapons" can be just as dangerous as damage from "military weapons." The authors place particular emphasis on finance as the most effective way to generate threats at the level of a country or the entire planet.

States today are increasingly losing their monopoly on force as the means of coercion have become more diverse, whether economic, diplomatic, social, or cultural. The effects of war can therefore take place through a variety of dispositives, of which financial violence is certainly the most effective, since its effects destabilize the economy as a whole. Waging war, then, is no longer the exclusive domain of the military: clearly, warfare is expanding the domain of soldiers, military units, and military affairs, and it is increasingly becoming a matter for politicians, academics, and even bankers. Economics, and finance in particular, can substitute for military means, which can lead to "bloodless war." The new identity of governmentality and war leads to the reversibility of economic, political, military, and humanitarian interventions. In the new paradigm of postmodern war, military operations are just another activity of the state.

Focusing more directly on the operation of financial strategies, what they even call "financial terrorism," the two authors arrive at a model of the war of capital that is particularly useful for understanding the nature of transnational executive power and the new reality of war. They show that the model of government of the world economy has become "vertical, horizontal, and interlocking, providing supra-national, trans-national, and non-state combinations. The new model of "state + supranational + transnational + non-state [levels] will bring fundamental changes."

The new real executive power establishes the realized identity between economy, politics, and military, which fundamentally changes warfare. The resulting war machine is by definition not a

regulatory institution, but a power to plan and execute the new civil war, which some militaries analize as "war among the people. "This new kind of executive power and war machine was, for example, part of the Greek debt crisis in its "non-military" version. The European institutions, the IMF and the ECB do not have to answer to the people or to the states for the violence and the harshness of the decisions taken; they only have to listen to the transnational financial institutions that are today the main carriers of the multiplication of "civil wars" against the population.

While the process of subordinating the judiciary and the legislature to the executive continues to grow, most state powers in the West are now subordinated to a new transnational executive power. Qiao Liang and Wang Xiangsui see this as the result of capitalist globalization: "While we are narrowing the space of struggle in the narrow sense, we have at the same time turned the whole world into a battlefield in the broader sense. [...] The weapons are more advanced and the means more sophisticated, so it's a little less bloody but still just as brutal." The expansion of war, which now establishes a continuum between war, economics, and politics, combines the strategies of horizontality (multiplication and dispersion of centers of power and decision-making) and verticality (centralization and strict subordination of these centers and apparatuses of power and decision-making to the logic of financial capital).

Finance has become a non-military weapon with which to wage "bloodless wars" that can have as devastating an impact as "bloody wars." War is no longer the continuation of politics by bloody means; rather, the politics of capital is the continuation of war by whatever means its war machinery makes available. War itself assumes the role of the crisis it subsumes. In the present situation, the crisis is indistinguishable from this development. It is no longer a matter of interstate wars, but of new forms of transnational war, which is inseparable from the development of capital and can no longer be seen separately from its economic, humanitarian, ecological and other policies.

The contemporary war machine of finance capital continues the "colonization" of the state, which it controls not only through the corporations but also through the administration. At the same time, governments, as part of this colonization of administration, are new sites for the development, control, and enforcement of much of the techniques of "governmentality." The management of contemporary administration finds its model in the economy, but unlike the period between the two world wars, it is directly determined by financial capital and no longer by the scientific organization of labor through industrial capitalism. Both business and management are restructured to maximize the value of speculative capital, to the detriment of all other economic agents.

The sanctions imposed by the United States and Europe in response to Russian aggression in Ukraine, which must be condemned without fail, have taken a variety of forms. These are sanctions against the Russian Central Bank, preventing the bank from accessing its reserves in euros and dollars. The other is prohibiting Russian financial institutions from using the Swift global financial messaging system, which makes it more difficult for these institutions to process cross-border transactions.

The most serious measure is to freeze the dollar balances of the Russian Central Bank. This has never happened to a G20 member state before. Only the central banks of Venezuela, North Korea and Iran have suffered this fate. Thus, Russia's foreign exchange reserves in dollars can no longer be used at all to support the ruble on international foreign exchange markets or to finance domestic commercial banks in dollars. The government would have to rely on funding from the ruble (which is crashing in world currency markets) and non-fiat currencies such as gold.

Russia has also been supplying more and more gas to Europe in return for bank deposits in the Eurosystem, which are now also frozen. Those who export against foreign currencies always take a risk. Those who import against their own currency may have advantages.

Sanctions against the Russian central bank will make it increasingly difficult for it to supply Russian citizens with dollars and euros, and will also make it impossible for the bank to use dollars and euros to defend the value of the ruble on world markets. In the long run, a weak ruble hurts the Russian economy by making imports more expensive. In the short term, this could mean that long queues at Russian ATMs turn into a violent crash of the ruble.

Most of Russia's foreign exchange reserves are held in Western central banks. Russia has about 23% of its reserves in gold, but it is not clear where these are physically held. If the proposed sanctions are applied, this could seriously damage money flows and the Russian ruble, causing accelerated inflation and even a run on banks in Russia.

The impact of the Swift blocks is not yet entirely clear, as it is not yet known who will be affected. So far, it looks like the West is trying to keep Russian energy, especially gas, flowing westward, but that could change as well. Since energy is Russia's main source of dollars, we are still away from what is called "shock and awe" financial sanctions.

A truly comprehensive sanctions regime, such as the one the United States has imposed on Iran, requires simultaneous and mutually reinforcing action on multiple fronts. These include measures against both private banks and the national central bank, the exclusion of financial institutions from correspondent banking relationships and the Swift communications system, and targeted efforts to disrupt trade in strategic goods, including through the imposition of secondary sanctions on those seeking to trade with the sanctioned country. Through these means, the United States crippled the Iranian economy by reducing Iranian oil exports from 2.5 million barrels per day to only 400,000 barrels.

With respect to Russia, the U.S. has so far ensured that U.S. financial institutions are no longer allowed to maintain correspondent banking relationships with all major Russian commercial, industrial, and political banks. Most notably, sanctions have been extended to Sberbank, by far the most important Russian bank. Excluding a bank of Sberbank's importance from the dollar financial system is a dramatic step. It is the most draconian sanction ever imposed by the United States. Sberbank will no longer be able to make or receive international dollar payments. This will have a disruptive effect on Sberbank's ability to provide any international service to its customers. As of today, February 26, VISA cards issued by Sberbank will no longer work outside of Russia. Sberbank's share value has crashed and will likely continue to fall. The bank could face a rush of

Russian depositors who want to exchange their cash for foreign currency as quickly as possible. About half of Russian households have accounts with Sberbank.

In addition, there are the "slow burn" sanctions against Russia's access to key technologies. The U.S. intends to cut Russia off from global chip supplies. Taiwan Semiconductor Manufacturing Company, the world's largest contract chip manufacturer, which controls more than half of the global chip market, has pledged to fully comply with the new export controls. Russia is now barred from accessing high-value semiconductors and other technology imports that are critical to its military progress. However, it is possible that Chinese companies, particularly those that have themselves been targets of U.S. sanctions, could help Russia circumvent the export controls. Huawei could tap into the Russian market for telecommunications equipment.

It is clear that energy and other commodities will become more expensive. This will also contribute to inflation in the West as growth is slowed. The question is how severe the sanctions will be and how big the stagflationary effect will be.

A further escalation of the war may well lead to a global economic crisis, as it is likely to affect inflation and growth. Moreover, since Russia and Ukraine are important to the global grain market, any impact on crops or exports would translate into higher prices in many emerging markets and especially in Africa, where food is a large part of the basket of goods. Flight from risk and pressure on valuations are unlikely to be the driving force in the markets in the days and weeks ahead. The driving force will be liquidity.

Russia is an economy with financial surpluses and many wealthy companies and individuals who have large real and financial assets. These companies and oligarchs have assets that are partly financed with debt capital. The person who provided this borrowed capital will demand his money back immediately today. But it's not clear he'll get it back if you're dealing with a sanctioned entity. The lenders have a hole in his balance sheet, causing them to call in their loans.

If Russian banks are cut off from international finance, then it will lead to defaults, which could lead to conditions not unlike those in the early days of the pandemic. The exclusion of Swift will lead to missed payments and huge overdrafts. The virus has brought the movement of goods and services to a halt, leading to missed payments, and the war has led to Swift exclusions, which in turn will lead to missed payments.

The logic of escalation is further driven by the following factors, a) possible nuclear retaliation by the West or Russia, b) decisive events on the battlefield in Ukraine, and c) what impact the sanctions will have on Russia in the coming days.

Adam Tooze writes in his Chartbook today:

"There are at least three ways to look at Russia's reserves.

The first and most obvious way to look at Russia's reserves is as a national strategic buffer. That's how they worked in 2008 and 2014. When the Russian financial system and currency come

under pressure, dollars and euros can be sold from reserves against rubles, supporting the value of the currency and slowing the devaluation process, allowing debtors to reduce their exposure to foreign creditors and providing relief to importers and consumers.

What has changed is that the unprecedented move to sanction the Russian Central Bank will likely result in a large portion of Russia's reserves becoming unavailable to Russian policymakers.

The key point is that euro and dollar reserves can only be deployed by selling them on Western financial markets. These transactions require intermediary banks. And these banks can be prevented from engaging in transactions in which the Russian central bank is involved. To do so vis-à-vis another central bank is to violate the presumption of sovereign equality and the common interest in preserving property rights. This is a big step that cannot easily be taken against a central bank that is as important and as much a part of the Western networks as the Russian Central Bank. As far as I know, it was not considered in 2013/14.

A second important view of reserves is that of a surplus of unspent revenues squeezed out of the Russian economy and deliberately throttled to create a surplus in the hands of the state.

The hard-pressed banks are raising interest rates for their customers. This will put painful pressure on the real estate market and indebted households.

But there is a third way to look at Russian reserves:

They are petrodollars. They're the export revenues of an oil and gas exporter. And what we know about petrodollars is that they are recycled. Conservative fossil fuel exporters don't just spend the money they earn on immediate imports, they lend the money they earn from the sale of oil and gas back to their customers and use it to build up financial receivables or, what's the same thing, they make funds available to global financial markets. Oil and gas are thus transformed into a perpetual stream of interest payments and dividends.

The key point that becomes clear here is that Russia's reserve accumulation, like that of other oil and gas producers such as Norway or Saudi Arabia, is a source of funding in Western markets. Reserves are not simply sitting idle in central bank accounts, but are being lent out. With the sanctions, financing from Russia's petro and gas dollars is in jeopardy. And it doesn't just affect the Russians.

When you sanction Russia, blocking hundreds of billions of dollars on the global balance sheet, you have to ask: What happens to the other side of the balance sheet? The reserves are Russia's assets, they are someone else's liabilities, who in turn has offset those liabilities with an asset, and so on. These chains can be branched and complicated.

In the 2000s, Russia, like China and Japan, bought U.S. government bonds. In doing so, it became a creditor of the U.S. government. This triggered unease on both sides, culminating in 2008 in the (probably exaggerated) rumor that Russia was pressuring China to engage in a "bear raid" on the U.S. Treasury market-that is, to intentionally sell U.S. Treasury bonds to provoke a market collapse.

It is undisputed that Russia reduced its official and direct holdings of government bonds in 2018 under threat of sanctions. There are various theories about what happened next. Where did the billions go?

As Credit Suisse's Zoltan Pozsar pointed out in his "Global Money Despatch," since the initial sell-off in 2018, Russia's dollar holdings have increasingly been deployed in short-term money markets rather than in the long-term sovereign debt market. Russia's money has been shifted out of U.S. Treasury securities and into currency swaps, in which Russia lent dollars in exchange for non-dollar collateral. The Russian side of this pairing of assets and liabilities, Pozsar said, is reflected in Russia's reserve balances with non-U.S. central banks. It is these that have been sanctioned as of this morning.

Russian funds in European central banks are not simply collections of money lying idle. They are part of complex chains of transactions that could now be jeopardized by the sanctions.

For example, if funds are frozen because of sanctions-an event that would turn a surplus agent (Russia) into a deficit agent, which in turn would lead to defaults, much as the Covid-19 outbreak led to defaults and turned surplus agents into deficit agents.

Overall, Pozsar estimates that Russia could be responsible for providing funds on the order of $300 billion to short-term money markets. If these funds disappear overnight, it could be a severe shock to the Western financial system.

It remains to be seen how severe this shock will be, but it is likely that it is not only the Russian central bank that could come under pressure. Central banks in Europe and the U.S. Federal Reserve may have to stand by to shape markets as they did in 2020.

And this applies more broadly to global financial markets at a time of great uncertainty. As at the time of the COVID shock, we are seeing a surge in demand for the dollar as a global safe haven.

That, in turn, is putting pressure on everyone who has dollar-denominated debt. This is a pattern we have seen repeatedly in moments of crisis since 2008: A global dollar shortage.

This is important when considering speculation about the long-term impact of sanctions. Will they cause China to move further away from the dollar? Will alternatives to SWIFT emerge? Certainly, Russia will have to look at developing alternative payment mechanisms that could go through the renminbi or the rupee.

Russia could accept payments for its exports in renminbi and increase imports paid in renminbi from China and possibly other countries that accept renminbi. Since renminbi-denominated payments are most likely to be handled by institutions outside the West's immediate sphere of influence, this would work. ...It would mean that Russia would have to reorganize its international financial and economic relations, but that may be something it is already striving to do.

But as important as that shift might be, in the short run, the dollar is still king. And ultimately, there is only one unlimited source of dollars for the global economy: the Fed.The dollar is rising against virtually all other currencies as the fallout from the intensifying conflict in Ukraine drives

up demand for the world's reserve currency.
So that's the next question for markets to digest. How do you reconcile global demand for the dollar as a safe haven with the Fed's desire to tighten policy to fight inflation? Put the two together and the result is crushing pressure on the dollar. Even before the crisis became acute, people worried about how the Fed could balance the national priority of price stability with the stability of the global dollar system. That balancing act has now become even more difficult."
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